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CANADA MALTING CO.  
LIMITED



ANNUAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 1978



# CANADA MALTING CO. LIMITED

## *Board of Directors*

NIGEL B. BAIRD  
DOUGLAS W. ELLIOTT  
HARRY F. GRAESSER  
JAMES C. GRANT  
W. DOUGLAS HATCH

JOHN P. G. KEMP  
LEONARD G. LUMBERS  
WALLACE F. READ  
GEORGE H. SELLERS  
REGINALD J. THOMAS

## *Honorary Director*

GORDON McMILLAN, Q.C.

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## *Officers*

HARRY F. GRAESSER . . . . .	CHAIRMAN OF THE BOARD
REGINALD J. THOMAS . . . . .	PRESIDENT AND CHIEF EXECUTIVE OFFICER
JAMES C. GRANT . . . . .	VICE-PRESIDENT AND GENERAL MANAGER
DOUGLAS W. ELLIOTT . . . . .	VICE PRESIDENT, SALES
CHARLES T. CLEGG . . . . .	SECRETARY
GORDON J. CATER . . . . .	TREASURER
DONALD W. McOUAT . . . . .	ASSISTANT GENERAL MANAGER

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## *Registered Office*

TORONTO - ONTARIO

## *Malthouses and Elevators*

MONTREAL, QUEBEC	- -	WINNIPEG, MANITOBA
TORONTO, ONTARIO	- -	CALGARY, ALBERTA
THUNDER BAY, ONTARIO		

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## *Transfer Agent*

CANADA PERMANENT TRUST COMPANY  
TORONTO, MONTREAL, CALGARY

## *Registrar*

MONTREAL TRUST COMPANY  
TORONTO, MONTREAL, CALGARY



## REPORT OF THE DIRECTORS TO THE SHAREHOLDERS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 1978

Your Directors take pleasure in presenting this report on the results of the Corporation's Consolidated operations for the financial year 1978.

Consolidated net earnings amounted to \$5,609,019 or \$6.46 per common share. Comparable figures for the preceding year were \$3,656,027 and \$4.22.

Lower barley prices and the weaker Canadian dollar enabled the Corporation to increase sales in the export market. As a result, malt shipments during 1978 established a record and the operation of our plants at capacity produced higher profits.

During the year Leaver Mushrooms Co. Limited experienced production problems and as a result, their contribution to the consolidated earnings declined substantially. Corrective action has been taken to overcome these problems and we are confident that 1979 will show a more realistic return on this investment.

Total capital expenditures of the consolidated operation were \$2,359,805 of which \$675,000 was to cover expenditures necessary to meet government regulations affecting environmental controls. Expenditures of approximately a million dollars are still required to comply with existing environmental regulations.

As announced on February 8, 1979, the directors have authorized construction of a new malt processing plant adjacent to our elevator operations in Montreal Harbour. The existing processing plant, the original part of which was built in 1905, is no longer efficient. The cost of this addition is estimated at 16.3 million dollars and it is expected to be in operation next year. On completion, production capacity at this location will be increased.

Having reached the retirement age specified in the Corporation's by-laws, Mr. L.G. Lumbers, who has been a Director for the past several years, submitted his resignation to the Board. In recognition of his contribution to the Corporation, he has been appointed an Honorary Director. The Board has appointed Mr. C.F. Edwards, a Vice-President of the Corporation, to fill this vacancy.

Effective December 31, 1978, Amendments to Canadian Tax laws terminated the Corporation's ability to pay tax free dividends on the Class B common shares. As a result, there is no longer a reason to have both Class A and Class B shares. We are asking the shareholders at the annual meeting to pass a special resolution which provides for the removal of distinctions between the Class A and Class B shares and redesignating them as common shares. It will not be necessary to send in your stock certificate as presently outstanding certificates representing Class A and Class B common shares will automatically represent the same number of common shares.

Domestic sales for 1979 will, of course, be influenced by weather and general economic conditions, however, we already have substantial export contracts on our books for delivery during the current year.

The success of any Corporation is dependent on the strong support of its employees. Your directors wish to record their appreciation of the loyal and efficient support rendered by the staff and employees throughout the year.

On behalf of the Directors,

REGINALD J. THOMAS  
President and  
Chief Executive Officer.

# CANADA MALTING CO. LIMITED

and subsidiary company

## CONSOLIDATED STATEMENT OF EARNINGS

	Year ended December 31	
	1978	1977
Net Sales . . . . .	\$106,664,062	\$117,194,455
Costs and expenses:		
Cost of products sold and all expenses except items show below . . . . .	93,777,877	107,443,812
Interest on long-term debt. . . . .	44,000	52,000
Bank and other interest . . . . .	535,042	1,416,746
Property rentals . . . . .	594,883	583,958
Provision for depreciation . . . . .	2,300,241	2,154,912
Provision for income taxes . . . . .	3,803,000	1,887,000
	<u>101,055,043</u>	<u>113,538,428</u>
Net earnings for the year. . . . .	<u>\$ 5,609,019</u>	<u>\$ 3,656,027</u>
Net earnings per share . . . . .	<u>\$6.46</u>	<u>\$4.22</u>

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended December 31	
	1978	1977
Balance at beginning of year . . . . .	\$ 32,152,920	\$ 29,750,975
Net earnings for the year. . . . .	<u>5,609,019</u>	<u>3,656,027</u>
	<u>37,761,939</u>	<u>33,407,002</u>
Deduct:		
Dividends on common shares:		
Class A shares (1978 — \$1.80 per share; 1977 — \$1.45 per share) . . . . .	1,339,625	1,078,866
Class B shares (1978 — \$1.80 per share; 1977 — \$1.345 per share) . . . . .	224,627	162,856
Tax paid on undistributed income . . . . .	—	12,360
	<u>1,564,252</u>	<u>1,254,082</u>
Balance at end of year . . . . .	<u>\$ 36,197,687</u>	<u>\$ 32,152,920</u>



## ASSETS

	December 31	
	<u>1978</u>	<u>1977</u>
<b>CURRENT ASSETS:</b>		
Cash . . . . .	\$ 33,653	\$ 36,202
Accounts receivable . . . . .	14,242,716	11,882,306
Income taxes recoverable . . . . .	—	172,809
Inventories —		
Barley and malt. . . . .	32,242,904	32,787,256
Operating supplies . . . . .	560,353	521,034
Prepaid rent and other expenses . . . . .	788,583	806,671
	<u>47,868,209</u>	<u>46,206,278</u>
<b>OTHER ASSETS:</b>		
Prepaid rent (Note 2) . . . . .	417,355	918,181
Commodity Exchange Seats and Membership in Clearing Association, less amounts written off. . . . .	<u>1</u>	<u>1</u>
	417,356	918,182
<b>FIXED ASSETS:</b>		
Buildings, plant and equipment . . . . .	54,750,970	52,434,584
Less: Accumulated depreciation. . . . .	<u>27,747,780</u>	<u>25,490,958</u>
	27,003,190	26,943,626
Land . . . . .	<u>1,753,344</u>	<u>1,753,344</u>
	28,756,534	28,696,970
Approved by the Board:		
R.J. THOMAS, <i>Director</i>		
W.D. HATCH, <i>Director</i>	<u>\$77,042,099</u>	<u>\$75,821,430</u>

**G CO. LIMITED**

y company

**BALANCE SHEET****LIABILITIES AND SHAREHOLDERS' EQUITY**

	December 31	
	<u>1978</u>	<u>1977</u>
<b>CURRENT LIABILITIES:</b>		
Bank advances and bankers' acceptances (Note 3) . . . . .	\$ 8,081,336	\$15,259,004
Accounts payable and accrued liabilities . . . . .	8,345,721	6,471,534
Long-term debt payable within one year . . . . .	100,000	100,000
Taxes on income . . . . .	2,131,212	—
	<u>18,658,269</u>	<u>21,830,538</u>
 <b>LONG-TERM DEBT OF SUBSIDIARY:</b>		
8% first mortgage debentures payable \$100,000 annually 1980 to 1983 . . . . .	400,000	500,000
 <b>DEFERRED INCOME TAXES</b>	 4,120,000	 3,738,000
 <b>SHAREHOLDERS' EQUITY:</b>		
Capital stock (Notes 4 and 5) —		
Convertible common shares without nominal or par value		
Issued and outstanding —		
Class A . . . . .	745,006 shares	
Class B . . . . .	<u>125,347 shares</u>	
	870,353 shares	5,243,705
		5,177,534
Retained earnings . . . . .	<u>36,197,687</u>	<u>32,152,920</u>
	41,441,392	37,330,454
 Excess of appraised value of fixed assets over depreciated book value on February 28, 1955 . . . . .	 <u>12,422,438</u>	 <u>12,422,438</u>
	53,863,830	49,752,892
	<u><u>\$77,042,099</u></u>	<u><u>\$75,821,430</u></u>

# CANADA MALTING CO. LIMITED

and subsidiary company

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended December 31	
	<u>1978</u>	<u>1977</u>
<b>SOURCE OF WORKING CAPITAL:</b>		
Net earnings for the year. . . . .	\$ 5,609,019	\$ 3,656,027
Non-cash charges deducted in arriving at earnings —		
Provision for depreciation . . . . .	2,300,241	2,154,912
Deferred income taxes . . . . .	382,000	139,600
Amortization of prepaid rent. . . . .	500,826	500,826
Funds provided from operations. . . . .	8,792,086	6,451,365
Shares issued under employees' stock option plan . . . . .	66,171	65,504
	<u>8,858,257</u>	<u>6,516,869</u>
<b>USE OF WORKING CAPITAL:</b>		
Additions to fixed assets. . . . .	2,359,805	3,040,305
Dividends on common shares. . . . .	1,564,252	1,241,722
Tax paid on undistributed income . . . . .	—	12,360
Reduction of long-term debt . . . . .	100,000	100,000
	<u>4,024,057</u>	<u>4,394,387</u>
Resulting in an increase in working capital of. . . . .	4,834,200	2,122,482
Working capital at beginning of year . . . . .	<u>24,375,740</u>	<u>22,253,258</u>
Working capital at end of year . . . . .	<u>\$29,209,940</u>	<u>\$24,375,740</u>

## TEN YEAR EARNINGS

	Net Earnings	Earnings per Common Share
1978	\$5,609,019	6.46
1977	3,656,027	4.22
1976	2,023,500	2.34†
1975	2,601,939	3.01
1974	4,157,741	4.81
1973	3,279,485	3.60*†
1972	2,835,768	3.13*
1971	2,630,422	2.89*
1970	2,107,042	2.28*
1969	2,082,970	2.25*

\*After providing for dividends on preferred shares.

† Excluding extraordinary item.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 1978**

**1. SUMMARY OF ACCOUNTING POLICIES:**

**(a) Principles of consolidation —**

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Leaver Mushrooms Co. Limited.

**(b) Inventories—**

Barley and malt are valued at the lower of cost and net realizable value. Operating supplies are valued at cost or less.

**(c) Fixed assets —**

Land, buildings, plant and equipment are stated at 1955 appraised values plus subsequent additions at cost. Depreciation provisions are computed by the straight-line method at rates based on the estimated useful lives of the depreciable assets, principally as follows:

Buildings	2.5% per annum
Machinery and equipment	7.5% — 10.0% per annum
Automotive equipment	15.0% — 25.0% per annum

**(d) Income taxes —**

Deferred income taxes are provided for all significant timing differences in reporting costs and expenses for financial statement and tax purposes.

**(e) Pensions —**

Current service costs are charged to operations as they accrue. Unfunded past service costs, amounting to approximately \$1,443,000 at December 31, 1978 (1977 — \$1,995,000) are being amortized by annual payments through to 1992.

**(f) Foreign currency transactions —**

The Corporation's principal transactions involving foreign currencies are export sales. This revenue is translated into Canadian dollars at rates applicable to related forward exchange contracts.

Current assets and current liabilities to be settled in foreign currencies are translated into Canadian dollars at rates applicable to related forward exchange contracts, or at exchange rates prevailing at the balance sheet date.

**2. LEASED PROPERTY:**

Under the terms of the lease taken back on the Toronto Bathurst Street property, expropriated in 1973, the Corporation has leased the property to November 30, 1987 with the right to terminate the lease with one year's notice, provided that such termination cannot be effective before October 31, 1980. The Corporation may also with one year's notice, to take effect at any time after October 31, 1980, require the Lessor to take possession of any part of the leased property with an appropriate adjustment of the rent. The Lessor has the right to terminate the lease with four years' notice provided that such termination cannot be effective before October 31, 1985.

Part of the compensation received for the expropriated property was prepaid rent due under the lease to October 31, 1980; at December 31, 1978, prepaid rent for the period January 1, 1980 to October 31, 1980 amounted to \$417,355. The annual rent for the balance of the lease period, November 1, 1980 to November 30, 1987, is \$613,652, payable on a quarterly basis.

**3. BANK ADVANCES AND BANKERS' ACCEPTANCES:**

Bank advances and bankers' acceptances are secured by a general assignment of accounts receivable and a pledge of inventories under Section 88 of the Bank Act.

**4. CANADA BUSINESS CORPORATIONS ACT:**

The Corporation filed Articles of Continuance in accordance with Section 181 of the Canada Business Corporations Act and has obtained a certificate of continuance dated June 7, 1978. Under these Articles, the Corporation has the right to issue an unlimited number of common shares and has no preferred shares. The Corporation's name has been changed from Canada Malting Co., Limited to Canada Malting Co. Limited Canada Maltage Cie Limitée.

5. COMMON SHARES:

The Employee Stock Option Plan, ratified by shareholders at the Annual Meeting on April 24, 1975, authorized the granting of options on 20,000 Class A common shares at prices not less than 90% of the market price on the day immediately preceding the date of grant. Of these, 17,000 had been granted to December 31, 1978. The options are exercisable in instalments during a period of not more than five years from date of grant. During the year ended December 31, 1978 no further options were granted, existing options on 2,970 shares were exercised for a cash consideration of \$66,171 and existing options on 500 shares lapsed on retirement of employees. At December 31, 1978 options to purchase 7,395 shares at \$22.28 per share were outstanding, including options for 2,725 shares held by six officers, three of whom are directors.

The Class A and Class B shares are inter-convertible on a share-for-share basis, the rights of each class are identical and both classes of shares rank equally as to dividends. Changes in the share capital of the Corporation during the year were as follows:

	<u>Class A</u>	<u>Class B</u>
Shares issued and outstanding at beginning of year. . . . .	744,556	122,827
Class A shares issued on exercise of options . . . . .	2,970	—
Class A shares converted into Class B (net) . . . . .	(2,520)	2,520
Shares issued and outstanding at end of year. . . . .	<u>745,006</u>	<u>125,347</u>

The Corporation plans to replace the Class A and Class B shares by one class of common shares in 1979.

6. ANTI-INFLATION PROGRAM:

The Corporation and its subsidiary were subject to the controls on prices, profits, compensation and dividends which were instituted by the Federal Government in the Anti-Inflation Act effective October 14, 1975 and which terminated on December 31, 1978. The Corporation believes it has complied with the requirements of the Act.

7. MONTREAL PLANT:

The Board of Directors has approved a plan to construct a new malthouse in Montreal. The estimated total cost of this project is \$16,300,000.

## AUDITORS' REPORT

To the Shareholders of  
Canada Malting Co. Limited:

We have examined the consolidated balance sheet of Canada Malting Co. Limited as at December 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

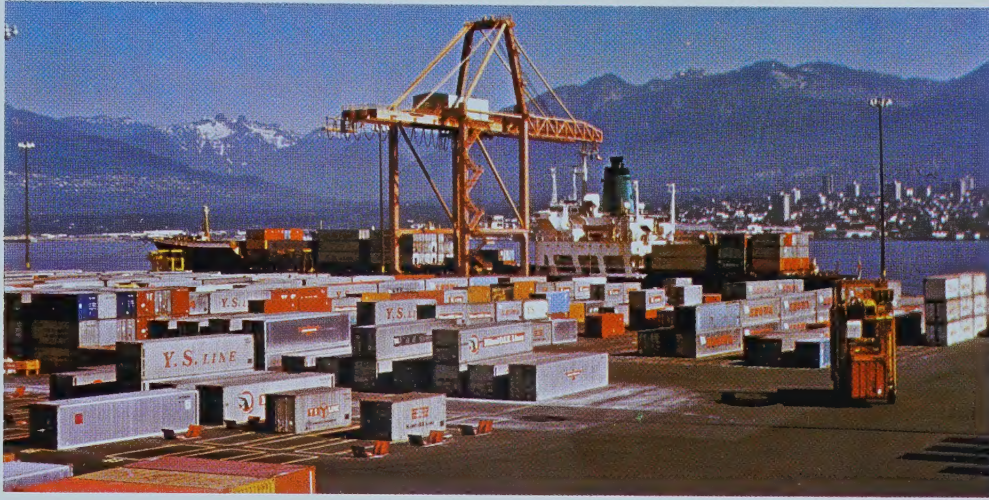
In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario  
February 23, 1979

PRICE WATERHOUSE & CO.  
Chartered Accountants



## Shipping Bulk and Bagged Malt For Export Through the Port of Vancouver



*Above:*  
View of Container  
Port

*Right:*  
Bagged Malt  
from our Calgary  
Plant



*Below:*  
Containers of  
Bulk or Bagged  
Malt





# LEAVER MUSHROOMS

*Fresh Packed in Canada*



*Canned . . .*

Whole  
Sliced  
Creamed  
Pieces and Stems

